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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Quarter Ended January 26, 2003,

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition period from        to        .

Commission file number: 0-27446

### LANDEC CORPORATION

(Exact name of registrant as specified in its charter)

**California**

(State or other jurisdiction of  
incorporation or organization)

**94-3025618**

(IRS Employer  
Identification Number)

**3603 Haven Avenue**

**Menlo Park, California 94025**

(Address of principal executive offices)

Registrant's telephone number, including area code:

**(650) 306-1650**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of March 3, 2003, there were 21,107,517 shares of Common Stock and 157,726 shares of Convertible Preferred Stock, convertible into ten shares of Common Stock for each share of Preferred Stock, outstanding.

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LANDEC CORPORATION

FORM 10-Q For the Fiscal Quarter Ended January 26, 2003

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**LANDEC CORPORATION**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
**(In thousands)**

	<u>January 26, 2003</u>	<u>October 27, 2002</u>
	(Unaudited)	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 5,339	\$ 7,849
Restricted cash	2,382	1,032
Accounts receivable, less allowance for doubtful accounts of \$837 and \$1,022 at January 26, 2003 and October 27, 2002	14,722	19,040
Inventory	17,266	10,121
Investment in farming activities	700	1,591
Notes and advances receivable	2,720	3,645
Notes receivable, related party	—	751
Prepaid expenses and other current assets	2,097	2,456
Total Current Assets	<u>45,226</u>	<u>46,485</u>
Property and equipment, net	19,202	19,902
Goodwill	25,733	25,733
Other intangible assets, net	11,732	11,747
Notes receivable	1,465	1,132
Restricted cash, non-current	—	1,350
Other assets	296	1,454
	<u>\$ 103,654</u>	<u>\$ 107,803</u>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 10,362	\$ 11,512
Grower payables	1,001	6,460
Related party payables	174	450
Accrued compensation	1,312	1,518
Other accrued liabilities	4,314	7,771
Deferred revenue	15,404	3,215
Lines of credit	8,134	10,098
Current maturities of long term debt	2,255	2,193
Total Current Liabilities	<u>42,956</u>	<u>43,217</u>
Long term debt, less current maturities	3,922	5,252
Other liabilities	1,544	1,791

Minority interest	1,158	1,580
Total Liabilities	49,580	51,840
Shareholders' Equity:		
Preferred stock	5,420	14,461
Common stock	110,098	100,802
Accumulated deficit	(61,444)	(59,300)
Total Shareholders' Equity	54,074	55,963
	<u>\$ 103,654</u>	<u>\$ 107,803</u>

*See accompanying notes.*

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**LANDEC CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**  
**(In thousands, except per share amounts)**

	Three Months Ended	
	January 26, 2003	January 27, 2002
Revenues:		
Product sales	\$ 34,203	\$ 32,924
Services revenue	5,996	6,094
Service revenue, related party	454	780
License fees	272	427
Research, development and royalty revenues	200	121
Total revenues	41,125	40,346
Cost of revenue:		
Cost of product sales	30,773	30,265
Cost of services revenue	4,629	5,394
Total cost of revenue	35,402	35,659
Gross profit	5,723	4,687
Operating costs and expenses:		
Research and development	1,070	832
Selling, general and administrative	6,524	6,783
Total operating costs and expenses	7,594	7,615
Operating loss	(1,871)	(2,928)
Interest income	64	33
Interest expense	(322)	(631)
Other income	93	5
Net loss	<u>\$ (2,036)</u>	<u>\$ (3,521)</u>
Net loss	\$ (2,036)	\$ (3,521)
Dividends on Series B preferred stock	(108)	(100)
Net loss applicable to shareholders	<u>\$ (2,144)</u>	<u>\$ (3,621)</u>
Basic and diluted net loss per share	<u>\$ (0.10)</u>	<u>\$ (0.22)</u>
Shares used in computing basic and diluted net loss per share	20,630	16,563

*See accompanying notes.*

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**LANDEC CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(In thousands)**

	Three Months Ended	
	January 26, 2003	January 27, 2002
Cash flows from operating activities:		
Net loss	\$ (2,036)	\$ (3,521)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	879	741

(Gain) loss on disposal of property and equipment	(39)	59
Increase in minority interest liability	89	42
Changes in current assets and liabilities:		
Accounts receivable	4,318	(2,473)
Inventory	(7,145)	(1,480)
Investment in farming activities	891	598
Decrease in notes and advances receivable	2,046	330
Prepaid expenses and other current assets	359	(126)
Assets held for sale	—	(55)
Accounts payable	(1,150)	1,229
Grower payables	(5,459)	413
Related party payables	(276)	203
Accrued compensation	(206)	371
Other accrued liabilities	(3,457)	(502)
Deferred revenue	12,189	13,152
Total adjustments	3,039	12,502
Net cash provided by operating activities	1,003	8,981
Cash flows from investing activities:		
Change in other assets and liabilities	891	124
Purchases of property and equipment	(808)	(1,285)
Increase in restricted cash	—	(14)
Net cash provided by (used in) investing activities	83	(1,175)
Cash flows from financing activities:		
Proceeds from sale of common stock	147	180
Borrowings on lines of credit	13,041	5,235
Payments on lines of credit	(15,005)	(12,466)
Proceeds from issuance of long term debt	—	34
Payments on long term debt	(1,268)	(1,883)
Distributions to minority interest	(511)	—
Net cash used in financing activities	(3,596)	(8,900)
Net decrease in cash and cash equivalents	(2,510)	(1,094)
Cash and cash equivalents at beginning of period	7,849	8,695
Cash and cash equivalents at end of period	\$ 5,339	\$ 7,601
Supplemental schedule of noncash investing and financing activities:		
Sale of assets in exchange for a note receivable	\$ 664	\$ —
Issuance of Series B preferred stock as dividends to Series B preferred stockholders	\$ 108	\$ 100
Conversion of Series A preferred stock into common stock	\$ 9,149	\$ —

See accompanying notes.

**LANDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation**

Landec Corporation and its subsidiaries (“Landec” or the “Company”) design, develop, manufacture, and sell temperature-activated and other specialty polymer products for a variety of food products, agricultural products, and licensed partner applications. The Company markets and distributes hybrid corn seed to farmers through its Landec Ag, Inc. (“Landec Ag”) subsidiary and specialty packaged fresh-cut vegetables and whole produce to retailers and foodservice companies primarily in the United States and Canada through its Apio, Inc. (“Apio”) subsidiary.

The accompanying unaudited consolidated financial statements of Landec Corporation (“Landec” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations, and cash flows at January 26, 2003, and for all periods presented, have been made. Although Landec believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted per the rules and regulations of the Securities and Exchange Commission. The accompanying financial data should be reviewed in conjunction with the audited financial statements and accompanying notes included in Landec’s Annual Report on Form 10-K for the fiscal year ended October 27, 2002.

The results of operations for the three month period ended January 26, 2003 are not necessarily indicative of the results that may be expected for an entire fiscal year. For instance, due to the cyclical nature of the corn seed industry, a significant portion of Landec Ag revenues and profits will be concentrated over a few months during the spring planting season (generally during Landec’s second fiscal quarter).

## Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported results of operations during the reporting period. Actual results could differ materially from those estimates.

For instance, the carrying value of notes and advances receivable, as well as investments in farming activities, are impacted by current market prices for the related crops, weather conditions and the fair value of the underlying security obtained by the Company, such as, liens on property and crops. The Company recognizes losses when it estimates that the fair value of the related crops or security is insufficient to cover the advance, note receivable or investment.

## Reclassifications

Certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

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## 2. Recent Pronouncements

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. On October 28, 2002, the Company adopted SFAS 143. The adoption of SFAS 143 did not have a material impact on the Company's results of operations or financial position.

## 3. Net Income Per Diluted Share

The computation of diluted net loss per share for the three months ended January 26, 2003 excludes the impact of options to purchase 112,052 shares of common stock and the conversion of the Convertible Preferred Stock, which is convertible into 1.5 million shares of common stock at January 26, 2003, as such impact would be antidilutive for this period.

The computation of diluted net loss per share for the three months ended January 27, 2002 excludes the impact of options to purchase 209,227 shares of common stock and the conversion of the Convertible Preferred Stock, which was convertible into 3.2 million shares of common stock at January 27, 2002, as such impact would be antidilutive for this period.

## 4. Goodwill and Other Intangibles

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations", and No. 142 (SFAS 142), "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. The Company has applied the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal year 2002.

Under SFAS 142 the Company is required to review goodwill and indefinite lived intangible assets at least annually. In May 2002, the Company completed its initial impairment review upon adoption of SFAS 142, and in October 2002, the Company completed its annual review. The review is performed by grouping the net book value of all long-lived assets for acquired businesses, including goodwill and other intangible assets, and comparing this value to the related estimated fair value. The determination of fair value is based on estimated future discounted cash flows related to these long-lived assets. The discount rate used was based on the risks associated with the acquired businesses. The determinations of fair value were performed by an independent appraiser. The reviews concluded that the fair value of the acquired businesses exceeded the carrying value of their net assets and thus no impairment charge was warranted as of either May 2002 or October 2002.

## 5. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market and consisted of the following (in thousands):

	January 26, 2003	October 27, 2002
Finished goods	\$ 13,557	\$ 5,119
Raw material	3,820	3,830
Work in process	233	1,450
Gross inventory	17,610	10,399
Less reserves	(344)	(278)
Net inventory	\$ 17,266	\$ 10,121

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## 6. Debt

On October 31, 2002, Apio's loan agreement with Bank of America was amended to extend the revolving line of credit through January 31, 2003 and to decrease the interest rate to prime plus 1.75%, or 6.00%, on an annual basis. The loan agreement was amended again in January 2003, and February 2003, resulting in an extension of the line of credit through May 1, 2003. The Company is currently negotiating a new working capital line of credit with its bank.

## 7. Sale of Assets

On December 17, 2002, the Company sold fruit processing equipment and the rights to the Company's Great Whites™ trademark for \$707,000, resulting in a net gain of \$39,000. The purchase price will be paid in equal annual installments over the next seven years. In addition, the Company entered into a supply agreement with the purchaser to supply fruit to the Company's export business for the next three years with an option for year four.

## 8. Related Party

In May 2002, Apio advanced to a farm wholly-owned by the Chief Executive Officer of Apio ("Apio CEO") \$1.1 million for ground lease payments and crop financing expenses in order to maintain current levels of produce sourcing from his personal farm. The advance accrues interest at Apio's interest rate per its Bank of America loan agreement. Of the \$1.1 million, \$400,000 was repaid on June 30, 2002. On January 2, 2003, the remaining amount due plus accrued interest totaling \$751,000 was offset against the earnout liability owed to the Apio CEO.

## 9. Preferred Stock

On November 19, 2002, the Series A preferred stock was automatically converted into 1,666,670 shares of common stock pursuant to the Series A preferred stock agreement dated November 19, 1999.

## 10. Dividends

Holders of Series B Convertible Preferred Stock are entitled to cumulative dividends payable in additional shares of Series B Convertible Preferred Stock at an annual rate of eight percent (8%) for the first two years, ten percent (10%) for the third year and twelve percent (12%) thereafter, following the initial sale on October 25, 2001, of shares of Series B Convertible Preferred Stock. Series B preferred stockholders were issued Series B preferred stock as accrued stock dividends of 3,093 shares on January 31, 2003. Dividends for Series B preferred stock are cumulative and were declared by the Company's Board of Directors and issued at a price of \$35 per share as per the agreement.

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## 11. Business Segment Reporting

Landec operates in two business segments: the Food Products Technology segment and the Agricultural Seed Technology segment. The Food Products Technology segment markets and packs produce and specialty packaged whole and fresh-cut vegetables that incorporate the Intelimer® based breathable membrane for the retail grocery, club store and food services industry. The Agricultural Seed Technology segment markets and distributes hybrid seed corn to the farming industry and is developing seed coatings using Landec's proprietary Intelimer polymers. The Food Products Technology and Agricultural Seed Technology segments include charges for corporate services allocated from the Corporate and Other segment. Corporate and other amounts include non-core operating activities and corporate operating costs. All of the assets of the Company are located within the United States of America.

Operations by Business Segment (in thousands):

	Food Products Technology	Agricultural Seed Technology	Corporate and Other	TOTAL
<u>Quarter ended January 26, 2003</u>				
Net sales	\$ 40,588	\$ 64	\$ 473	\$ 41,125
International sales	\$ 8,050	\$ —	\$ —	\$ 8,050
Gross profit	\$ 5,243	\$ 8	\$ 472	\$ 5,723
Net income (loss)	\$ (160)	\$ (2,184)	\$ 308	\$ (2,036)
Interest expense	\$ 259	\$ 63	\$ —	\$ 322
Interest income	\$ 54	\$ —	\$ 10	\$ 64
Depreciation and amortization	\$ 720	\$ 117	\$ 42	\$ 879
<u>Quarter ended January 27, 2002</u>				
Net sales	\$ 39,184	\$ 614	\$ 548	\$ 40,346
International sales	\$ 9,246	\$ —	\$ —	\$ 9,246
Gross profit	\$ 3,916	\$ 223	\$ 548	\$ 4,687
Net income (loss)	\$ (2,443)	\$ (1,739)	\$ 661	\$ (3,521)
Interest expense	\$ 567	\$ 64	\$ —	\$ 631
Interest income	\$ 33	\$ —	\$ —	\$ 33
Depreciation and amortization	\$ 559	\$ 129	\$ 53	\$ 741

During the first three months of fiscal year 2003, sales to the Company's top five customers accounted for approximately 42% of revenues, with the Company's top customers from the Food Products Technology segment, Wal-Mart Stores Inc., accounting for approximately 19% and Costco Wholesale Corp., accounting for approximately 13% of revenues. The Company expects that, for the foreseeable future, a limited number of customers may continue to account for a significant portion of its net revenues.

## 12. Subsequent Events

On February 20, 2003, the Board of Directors of the Company approved a change in the Company's fiscal year end from a fiscal year including 52 or 53 weeks that ends on the last Sunday in October to a fiscal year including 52 or 53 weeks that ends on the last Sunday in May. As a result, the Company's fiscal year end for 2003 will be for the seven months ended May 25, 2003.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the unaudited consolidated financial statements and accompanying notes included in Part I—Item 1 of this Form 10-Q and the audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Landec's Annual Report on Form 10-K for the fiscal year ended October 27, 2002.

Except for the historical information contained herein, the matters discussed in this report are forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934. These forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, without limitation, those mentioned in this report and, in particular the factors described below under "Additional Factors That May Affect Future Results," and those mentioned in Landec's Annual Report on Form 10-K for the fiscal year ended October 27, 2002. Landec undertakes no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report.

### **Critical Accounting Policies and Use of Estimates**

#### *Use of Estimates*

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates. The judgements and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances.

#### *Notes and Advances Receivables*

Apio has made advances to fruit growers for the development of orchards, and to produce growers for crop and harvesting costs. Typically, except for development advances, these advances are paid off within the growing season (less than one year) from harvested crops. Development advances and advances not fully paid during the current growing season are converted to interest bearing obligations, evidenced by contracts and notes receivable. These notes receivable and advances are secured by perfected liens on land and/or crops and have terms that range from twelve to sixty months. Notes receivable are periodically reviewed (at least quarterly) for collectibility. A reserve is established for any note or advance deemed to not be fully collectible based upon an estimate of the crop value or the fair value of the security for the note or advance. If crop prices or the fair value of the underlying security declines the Company may be unable to fully recoup its investment and the estimated losses would rise in the current period, potentially to the extent of the total investment.

#### *Investments in Farming Activities*

Investments in farming activities consist of cash advances to growers for expenses to be incurred during the growing season, in exchange for a percentage ownership in the proceeds of the crops. Net income or loss is generally recognized on these investments based on the Company's percentage ownership of the net proceeds of the crops as fields are harvested and proceeds are settled. These investments are periodically reviewed for impairment (at least quarterly). Additionally, certain farming agreements contain provisions wherein the Company bears the risk of loss if the net proceeds from the crops are not sufficient to cover the expense incurred. If crop prices decline the Company may be unable to fully recoup its investment and the estimated losses would rise in the current period, potentially to the extent of the total investment.

#### *Allowance for Doubtful Accounts*

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance for doubtful accounts is based on review of the overall condition of accounts receivable balances and review of significant past due accounts. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Bad debt losses are partially mitigated due to low risks related to the fact that the Company's customers are predominantly large financially sound national and regional retailers and because the Company carries foreign credit insurance to cover a portion of its foreign receivables exposure.

#### *Inventories*

Inventories are stated at the lower of cost or market. If the cost of the inventories exceeds their expected market value, provisions are recorded currently for the difference between the cost and the market value. These provisions are determined based on specific identification for unuseable inventory and a general reserve, based on historical losses, for inventory considered to be useable.

#### *Revenue Recognition*

Revenue from product sales is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed and determinable, and collectibility is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns, and discounts. If actual future returns and allowances differ from past experience, additional allowances may be required.

Licensing revenue is recognized in accordance with Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. Initial license fees are deferred and amortized over the period of the agreement to revenue when a contract exists, the fee is fixed and determinable, and collectibility is reasonably assured. Noncancellable, nonrefundable license fees are recognized over the research and development period of the agreement, as well as the term of any related supply agreement entered into concurrently with the license when the risk associated with commercialization of a product is non-substantive at the outset of the arrangement.

Contract revenue for research and development (R&D) is recorded as earned, based on the performance requirements of the contract. Non-refundable contract fees for which no further performance obligations exist, and there is no continuing involvement by the Company, are recognized on the

## The Company

Landec Corporation and its subsidiaries (“Landec” or “the Company”) design, develop, manufacture and sell temperature-activated and other specialty polymer products for a variety of food products, agricultural products, and licensed partner applications. This proprietary polymer technology is the foundation, and a key differentiating advantage, upon which we have built our business.

Landec’s core polymer products are based on its patented proprietary Intelimer polymers, which differ from other polymers in that they can be customized to abruptly change their physical characteristics when heated or cooled through a pre-set temperature switch. For instance, Intelimer polymers can change within the range of one or two degrees Celsius from a non-adhesive state to a highly tacky, adhesive state; from an impermeable state to a highly permeable state; or from a solid state to a viscous state. These abrupt changes are repeatedly reversible and can be tailored by Landec to occur at specific temperatures, thereby offering substantial competitive advantages in Landec’s target markets.

Landec has two core businesses – Food Products Technology and Agricultural Seed Technology, in addition to our Technology Licensing/Research and Development business.

Our Food Products Technology business is operated through a subsidiary, Apio, Inc., and combines our proprietary food packaging technology with the capabilities of a large national food supplier and value-added produce processor. Value-added processing incorporates Landec’s proprietary packaging technology with produce that is processed by washing, and in some cases cutting and mixing, resulting in packaged produce which can increase shelf life, reduce shrink (waste) and eliminates the need for ice during the distribution cycle. This combination was consummated in December 1999 when the Company acquired Apio, Inc. and certain related entities (collectively, “Apio”).

Our Agricultural Seed Technology business is operated through a subsidiary, Landec Ag, Inc., (“Landec Ag”) and combines our proprietary Intellicoat® seed coating technology with our unique eDC™ – e-commerce, direct marketing and consultative selling – capabilities which we obtained when we acquired Fielder’s Choice Direct (“Fielder’s Choice”), a direct marketer of hybrid seed corn, in September 1997.

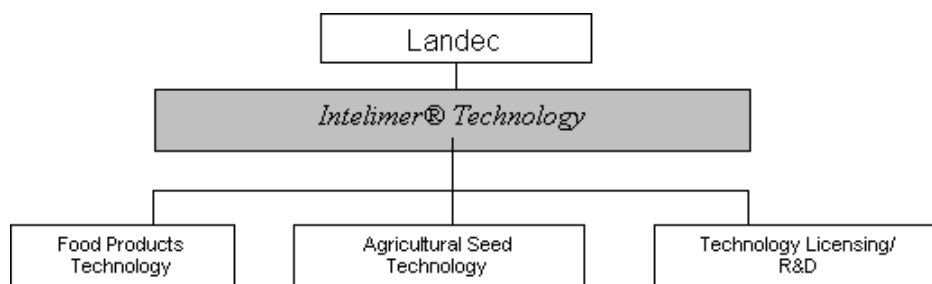
In addition to our two core businesses, the Company also operates a Technology Licensing/Research and Development business that licenses products outside of our core businesses to industry leaders such as Alcon Laboratories, Inc. and UCB Chemicals, a subsidiary of UCB S.A. of Belgium.

Landec has been unprofitable during each fiscal year since its inception, and may incur additional losses in the future. The amount of future net profits, if any, is highly uncertain and there can be no assurance that Landec will be able to reach or sustain profitability for an entire fiscal year. From inception through January 26, 2003, Landec’s accumulated deficit was \$61.4 million.

Landec was incorporated in California on October 31, 1986. We completed our initial public offering in 1996 and our common stock is listed on the Nasdaq National Market under the symbol “LNDC.” Our principal executive offices are located at 3603 Haven Avenue, Menlo Park, California 94025 and our telephone number is (650) 306-1650.

## Description of Core Business

We participate in two core business segments – Food Products Technology and Agricultural Seed Technology. In addition to these two core segments, we license technology and conduct ongoing research and development through our Technology Licensing/Research and Development Business.



## Food Products Technology Business

We began marketing in early fiscal year 1996 our proprietary Intelimer-based breathable membranes for use in the fresh-cut produce packaging market, one of the fastest growing segments in the food industry. Our proprietary packaging technology when combined with produce that is processed by washing and in some cases cut and mixed, results in packaged produce with increased shelf life, reduced shrink (waste) and without the need for ice during the distribution cycle, this we refer to as our “value-added” products. In December 1999, we acquired Apio, our largest customer in the Food Products Technology business and one of the nation’s leading marketers and packers of produce and specialty packaged fresh-cut vegetables. Apio provides year-round access to produce, utilizes state-of-the-art fresh-cut produce processing technology and distributes to the top U.S. retail grocery chains and major club stores and has recently begun expanding its product offerings to the foodservice industry. Our proprietary Intelimer-based packaging business has been combined with Apio into a wholly owned subsidiary that retains the Apio, Inc. name. This vertical integration within the Food Products Technology business gives Landec direct access to the large and growing fresh-cut produce market.



Based in Guadalupe, California, Apio, when acquired in December 1999, consisted of two major businesses – first, the “fee-for-service” selling and marketing of whole produce and second, the specialty packaged fresh-cut and whole value-added processed products that are washed and packaged in our proprietary packaging. The “fee-for-service” business historically included field harvesting and packing, cooling and marketing of vegetables and fruits on a contract basis for growers in California’s Santa Maria, San Joaquin and Imperial Valleys as well as in Arizona and Mexico. Apio currently has approximately 12,600 acres under contract, consisting of approximately 17 percent of the farmable land in the Santa Maria Valley. The fresh-cut value-added processing products business, developed within the last 6 years, sells a variety of fresh-cut vegetables to the top retail grocery chains representing over 8,700 retail and club stores. During the fiscal year ended October 27, 2002, Apio shipped more than 19 million cartons of produce to some 700 customers including leading supermarket retailers, wholesalers, foodservice suppliers and club stores throughout the United States and internationally, primarily in Asia.

There are five major distinguishing characteristics of Apio that provide competitive advantages in the Food Products Technology market:

- **Full Service Supplier:** Apio has structured its business as a full service marketer and seller of vegetables, fruits, and fresh-cut value-added produce. It is focused on developing its Eat Smart® brand name for all of its value-added products. As retail grocery and club store chains consolidate, Apio is well positioned as a single source of a broad range of products.
- **Reduced Farming Risks:** Apio reduces its farming risk by not taking ownership of farmland, and instead, contracts with growers for produce and charges for services that include cooling, shipping and marketing. The year-round sourcing of produce is a key component to both the traditional produce business as well as the value-added processing business.
- **Lower Cost Structure:** Apio has strategically invested in the rapidly growing value-added business. Apio’s 49,000 square foot value-added processing plant is automated with state-of-the-art vegetable processing equipment. Virtually all of Apio’s value-added products utilize Landec’s proprietary breathable membrane technology. Our strategy is to operate one large central processing facility in one of California’s largest, lowest cost growing regions (Santa Maria Valley) and use packaging technology to allow for the nationwide delivery of fresh produce products.
- **Export Capability:** Apio is uniquely positioned to benefit from the growth in export sales to Asia and Europe over the next decade with its export business, CalEx. Through CalEx, Apio is currently one of the largest U.S. exporters of broccoli to Asia and has recently launched its iceless products to Asia using our packaging technology.
- **Expanded Product Line Using Technology:** Apio, through the use of our proprietary breathable membrane technology, is in the early stages of changing selective categories of the whole produce business. Its introduction of iceless

packaging for broccoli crowns in November 2000 was the beginning of a conversion from the traditional packing and shipping of whole produce, which relied heavily on ice, to iceless products utilizing our packaging technology. New iceless packaging is available for various broccoli products and green onions.

### ***Agricultural Seed Technology Business***

The Company formed our Landec Ag (formerly Intellicoat Corporation) subsidiary in 1995. Landec Ag’s strategy is to build a vertically integrated seed technology company based on the proprietary Intellicoat seed coating technology and its eDC—e-commerce, direct marketing and consultative selling capabilities.

Landec Ag is conducting field trials using Intellicoat seed coatings, an Intelimer-based agricultural material designed to control seed germination timing, increase crop yields and extend crop planting windows. These coatings are initially being applied to corn and soybean seeds. According to the U.S. Agricultural Statistics Board, the total planted acreage in 2002 in the United States for corn and soybean seed exceeded 78.9 million and 73.0 million, respectively.

In fiscal year 2000, Landec Ag successfully launched its first commercial product, Pollinator Plus™ coatings for inbred corn seed. As a result of the success realized in fiscal year 2001, we expanded our sales of inbred corn seed coating products in fiscal year 2002 to regional and national seed companies in the United States. This application is targeted to approximately 640,000 acres in ten states and is now being used by over 30 seed companies in the United States. In addition, based on the successful field trial results during 2001 for our Early Plant™ hybrid coated corn, we expanded our sales in 2002. Our Relay™ Intercropping of wheat and soybean will allow farmers to plant and harvest two crops during the year on the same land, providing significant financial benefit for the farmer. Early Plant hybrid corn, perhaps Landec Ag’s largest seed coating opportunity, allows the farmer to plant corn seed 3 to 4 weeks earlier than typically possible due to cold soil temperatures. By allowing the farmer to plant earlier than normal, Early Plant hybrid corn will enable large farmers to utilize staff and equipment more efficiently and provide flexibility during the critical planting period. Recent market research with farmers in seven corn growing states verified that farmers would pay a significant premium for Landec Ag’s Early Plant hybrid corn product if they were able to plant a portion of their acreage up to one month early.

In September 1997, Landec Ag acquired Fielder’s Choice, a direct marketer of hybrid seed corn to farmers. Based in Monticello, Indiana, Fielder’s Choice offers a comprehensive line of corn hybrids to more than 14,000 farmers in over forty states through direct marketing programs. The success of Fielder’s Choice comes, in part, from its expertise in selling directly to the farmer, bypassing the traditional and costly farmer-dealer system. We believe that this direct channel of distribution provides up to a 35% cost advantage to its farmers.

In order to support its direct marketing programs, Fielder’s Choice has developed a proprietary e-commerce direct marketing, and consultative selling information technology, called “eDC”, that enables state-of-the-art methods for communicating with a broad array of farmers. This proprietary direct marketing information technology includes a current database of over 90,000 farmers. In August 1999, we launched the seed industry’s first comprehensive e-commerce website. This website furthers our ability to provide a high level of consultation to Fielder’s Choice customers, backed by a six day a week call center capability that enables us to use the internet as a natural extension of our direct marketing strategy.

### ***Technology Licensing/Research and Development Businesses***

We believe our technology has commercial potential in a wide range of industrial, consumer and medical applications beyond those identified in its core businesses. For example, our core patented technology Intelimer materials, can be used to trigger release of small molecule drugs, catalysts, pesticides or

fragrances just by changing the temperature of the Intelimer materials or to activate adhesives through controlled temperature change. In order to exploit these opportunities, we have entered into and will enter into licensing and collaborative corporate agreements for product development and/or distribution in certain fields.

## Results of Operations

Total revenues were \$41.1 million for the first quarter of fiscal year 2003 compared to \$40.3 million for the first quarter of fiscal year 2002. Revenues from product sales and services increased to \$40.7 million in the first quarter of fiscal year 2003 from \$39.8 million in the first quarter of fiscal year 2002. The increase in product sales and service revenues was primarily due to revenue increases in Apio's value-added specialty packaging business. Value-added revenues increased to \$25.4 million in the first quarter of fiscal year 2003 from \$20.9 million in the same period of fiscal year 2002. Revenues from license fees decreased to \$272,000 for the first quarter of fiscal year 2003 from \$427,000 for the first quarter of fiscal year 2002. The decrease was due to two months of revenue from the \$2.0 million licensing agreement with UCB Chemicals Corporation that was entered into in December 2001, being recognized in the first quarter of fiscal year 2002 compared to only one month in the first quarter of fiscal year 2003. Revenues from research and development funding were \$200,000 for the first quarter of fiscal year 2003 compared to \$121,000 for the first quarter of fiscal year 2002.

Cost of product sales and services consists of material, labor and overhead. Cost of product sales and services was \$35.4 million for the first quarter of fiscal year 2003 compared to \$35.7 million for the first quarter of fiscal year 2002. Gross profit from product sales and services as a percentage of revenue from product sales and services increased to 13% in the first quarter of fiscal year 2003 from 10% in the first quarter of fiscal year 2002. This increase in the gross profit percentage was due to a decrease in crop sourcing costs as a percent of revenue in the first quarter of fiscal year 2003 as compared to the first quarter of fiscal year 2002. During the first quarter of fiscal year 2002, the Company incurred \$2.5 million of incremental produce sourcing cost because of an industry-wide shortage of essential value-added produce items. These items had to be purchased at inflated prices on the open market in late December 2001 and most of January 2002 during the critical holiday season. The decrease in produce sourcing costs was partially offset by an increase in losses from farming activities to \$789,000 in the first quarter of fiscal year 2003 as compared to losses of \$133,000 in the same period last year. Overall, gross profits increased 22% to \$5.7 million in the first quarter of fiscal year 2003 compared to \$4.7 million in the first quarter of fiscal year 2002.

Research and development expenses increased to \$1.1 million for the first quarter of fiscal year 2003 compared to \$832,000 in the first quarter of fiscal year 2002, an increase of 29%. The increase in research and development expenses in the first quarter of fiscal year 2003 as compared to the first quarter 2002 is due to the Company's increased efforts in developing its banana packaging technology. Landec's research and development expenses consist primarily of expenses involved in the development of, process scale-up of, and efforts to protect intellectual property content of Landec's enabling side chain crystallizable polymer technology. The Company expects that total research and development spending in fiscal year 2003 will increase in comparison to the prior year in absolute dollars but may decrease as a percent of revenue as more products transition from research and development stages to commercialization.

Selling, general and administrative expenses were \$6.5 million for the first quarter of fiscal year 2003 compared to \$6.8 million for the first quarter of fiscal year 2002, a decrease of 4%. Selling, general and administrative expenses decreased in the first quarter of fiscal year 2003 as compared to the first quarter of 2002 primarily as a result of decreased general and administrative expenses at Apio from efficiencies derived from the new ERP system installed in fiscal year 2002. Selling, general and administrative expenses consist primarily of sales and marketing expenses associated with Landec's product sales and services, business development expenses, and staff and administrative expenses. Sales and marketing expenses decreased to \$2.1 million for the first quarter of fiscal year 2003 from \$2.3 million for the first quarter of fiscal year 2002. Landec expects that total selling, general and administrative spending for existing and newly acquired products will decrease in absolute dollars in future periods.

Interest income increased to \$64,000 for the first quarter of fiscal year 2003 compared to \$33,000 for the first quarter of fiscal year 2002. Interest expense decreased to \$322,000 in the first quarter of fiscal year 2003 compared to \$631,000 in the first quarter of fiscal year 2002.

## Liquidity and Capital Resources

As of January 26, 2003, the Company had cash and cash equivalents of \$5.3 million, or net decrease of \$2.5 million from \$7.8 million at October 27, 2002. This decrease was primarily due to: (a) the purchase of \$808,000 of property and equipment; (b) the reduction of net borrowings under the Company's lines of credit of \$2.0 million, and (c) the reduction of long term debt of \$1.3 million; partially offset by net cash provided by operating activities of \$1.0 million.

During the first quarter of fiscal year 2003, Landec purchased equipment to support the development of Apio's value added products, and to upgrade Apio's ERP business system. These expenditures represented the majority of the \$808,000 of property and equipment purchased.

On October 31, 2002, Apio's loan agreement with Bank of America was amended to extend the revolving line of credit through January 31, 2003 and to decrease the interest rate to prime plus 1.75%, or 6.00%, on an annual basis. The loan agreement was amended again in January 2003, and February 2003, resulting in the extension of the line of credit through May 1, 2003. The Company is currently negotiating a new working capital line of credit with its bank.

At January 26, 2003, Landec's total debt, including current maturities and capital lease obligations, was approximately \$14.3 million and the total debt to equity ratio was approximately 26% as compared to 31% at October 27, 2002. Of this debt, approximately \$8.1 million is comprised of revolving lines of credit and approximately \$6.2 million is comprised of term debt and capital lease obligations, \$2.3 million of which is mortgage debt on Apio's manufacturing facilities. The amount of debt outstanding on Landec's revolving lines of credit fluctuates over time, and the agreements contain financial and other limiting covenants. Borrowings on Landec's lines of credit are expected to vary with seasonal requirements of the Company's businesses. In addition, in connection with Landec's acquisition of Apio, Landec is obligated to pay the former owners of Apio \$2.5 million, which will be paid in fiscal years 2004 and 2005 and is recorded as long-term debt, and an additional \$1.6 million, which will be paid in monthly payments beginning in May 2003 through February 2004. The Company's material contractual obligations for the next five years and thereafter as of January 26, 2003, are as follows (in thousands):

Obligation	Due in Fiscal Year					
	Total	Remainder	2004	2005	2006	2007

	of 2003							
Lines of Credit	\$ 8,134	\$ 8,134	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term Debt	4,964	103	1,301	1,351	144	128	1,937	
Capital Leases	1,213	328	564	308	13	—	—	
Operating Leases	1,019	301	586	106	26	—	—	
Land Leases	172	172	—	—	—	—	—	
Earn-Out Liability	1,601	109	1,492	—	—	—	—	
Licensing Obligation	1,750	250	200	200	200	200	700	
Total	<u>\$ 18,853</u>	<u>\$ 9,397</u>	<u>\$ 4,143</u>	<u>\$ 1,965</u>	<u>\$ 383</u>	<u>\$ 328</u>	<u>\$ 2,637</u>	

Landec believes that its debt facilities, cash from operations, along with existing cash, cash equivalents and existing borrowing capacities will be sufficient to finance its operational and capital requirements through at least the next twelve months.

Landec's future capital requirements will depend on numerous factors, including the progress of its research and development programs; the development of commercial scale manufacturing capabilities; the development of marketing, sales and distribution capabilities; the ability of Landec to establish and maintain new collaborative and licensing arrangements; any decision to pursue additional acquisition opportunities; weather conditions that can affect the supply and price of produce, the timing and amount, if any, of payments received under licensing and research and development agreements; the costs involved in preparing, filing, prosecuting, defending and enforcing intellectual property rights; the ability to comply with regulatory requirements; the emergence of competitive technology and market forces; the effectiveness of product commercialization activities and arrangements; and other

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factors. If Landec's currently available funds, together with the internally generated cash flow from operations are not sufficient to satisfy its capital needs, Landec would be required to seek additional funding through other arrangements with collaborative partners, additional bank borrowings and public or private sales of its securities. There can be no assurance that additional funds, if required, will be available to Landec on favorable terms if at all.

### **Additional Factors That May Affect Future Results**

Landec desires to take advantage of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995 and of Section 21E and Rule 3b-6 under the Securities Exchange Act of 1934. Specifically, Landec wishes to alert readers that the following important factors, as well as other factors including, without limitation, those described elsewhere in this report, could in the future affect, and in the past have affected, Landec's actual results and could cause Landec's results for future periods to differ materially from those expressed in any forward-looking statements made by or on behalf of Landec. Landec assumes no obligation to update such forward-looking statements.

### ***We Have a History of Losses Which May Continue***

We have incurred net losses in each fiscal year since our inception. Our accumulated deficit as of January 26, 2003 totaled \$61.4 million. We may incur additional losses in the future. The amount of future net profits, if any, is highly uncertain and we may never generate significant revenues or achieve profitability.

### ***Our Substantial Indebtedness Could Limit Our Financial and Operating Flexibility***

At January 26, 2003, our total debt, including current maturities and capital lease obligations, was approximately \$14.3 million and the total debt to equity ratio was approximately 26%. Of this debt, approximately \$8.1 million is comprised of revolving lines of credit and approximately \$6.2 million is comprised of term debt and capital lease obligations. The amount of debt outstanding on our revolving lines of credit fluctuates over time, and the agreements contain financial and other limiting covenants. All \$8.1 million outstanding under the revolving lines of credit is due on May 1, 2003. Of our term debt and capital lease obligations, approximately \$431,000 become due over the remainder of fiscal year 2003 and \$1.9 million and \$1.7 million become due in fiscal years 2004 and 2005, respectively. This level of indebtedness limits our financial and operating flexibility in the following ways:

- a substantial portion of net cash flow from operations must be dedicated to debt service and will not be available for other purposes;
- our ability to obtain additional debt financing in the future for working capital is reduced;
- our ability to fund capital expenditures or acquisitions may be limited;
- our ability to react to changes in the industry and economic conditions generally may be limited.

In connection with the Apio acquisition, we may be obligated to make future payments to the former shareholders of Apio of up to \$4.1 million for a performance based earn out and future supply of produce. Of this amount, \$1.6 million relates to the earn out from fiscal year 2000 that is due to be paid in periodic scheduled payments through February 2004 and \$2.5 million relates to payments to be made in January 2004 and 2005.

Our ability to service this indebtedness and these future payments will depend on our future performance, which will be affected by prevailing economic conditions and financial, business and other factors, some of which are beyond our control. If we are unable to service this debt, we would be forced to pursue one or more alternative strategies such as selling assets, restructuring or refinancing our indebtedness or seeking additional equity capital, which might not be successful and which could substantially dilute the ownership interest of existing shareholders.

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***We Have Violated Restrictions in Our Loan Agreements and May Have to Pursue New Financings if We Are Unable to Comply with These Provisions in the Future***

Apio is subject to various financial and operating covenants under its term debt and line of credit facilities (the "Loan Agreement"), including minimum fixed charge coverage ratio, minimum current ratio, minimum adjusted net worth and maximum leverage ratios. The Loan Agreement limits the ability of Apio to make cash payments to Landec. Landec Ag is subject to certain restrictive covenants in its loan agreements which limit the ability of Landec Ag to make payments on debt owed to Landec. We have pledged substantially all of Apio's and Landec Ag's assets to secure their bank debt. Although we are currently not in violation of any of the provisions of the Loan Agreement we have violated provisions of the Loan Agreement in the past. If we violate any obligations in the future we could trigger an event of default, which, if not cured or waived, would permit acceleration of our obligation to repay the indebtedness due under the Loan Agreement. If the indebtedness due under the Loan Agreement were accelerated, we would be forced to pursue one or more alternative strategies such as selling assets, seeking new debt financing from another lender or seeking additional equity capital, which might not be achievable or available on attractive terms, if at all, and which could substantially dilute the ownership interest of existing shareholders.

### ***Our Future Operating Results Are Likely to Fluctuate Which May Cause Our Stock Price to Decline***

In the past, our results of operations have fluctuated significantly from quarter to quarter and are expected to continue to fluctuate in the future. Historically, our direct marketer of hybrid corn seed, Landec Ag, has been the primary source of these fluctuations, as its revenues and profits are concentrated over a few months during the spring planting season (generally during our second quarter). In addition, Apio can be heavily affected by seasonal and weather factors which have impacted quarterly results, such as the high cost of sourcing product during the first quarter of fiscal year 2002 due to a shortage of essential value-added produce items which had to be purchased at inflated prices on the open market in December 2001 and January 2002. Our earnings may also fluctuate based on our ability to collect accounts receivables from customers and note receivables from growers. Our earnings from our Food Products Technology business are sensitive to price fluctuations in the fresh vegetables and fruits markets. Excess supplies can cause intense price competition. Other factors that affect our food and/or agricultural operations include:

- the seasonality of our supplies;
- our ability to process produce during critical harvest periods;
- the timing and effects of ripening;
- the degree of perishability;
- the effectiveness of worldwide distribution systems;
- total worldwide industry volumes;
- the seasonality of consumer demand;
- foreign currency fluctuations; and
- foreign importation restrictions and foreign political risks.

As a result of these and other factors, we expect to continue to experience fluctuations in quarterly operating results, and we may never reach or sustain profitability for an entire fiscal year.

### ***We May Not Be Able to Achieve Acceptance of Our New Products in the Marketplace***

Our success in generating significant sales of our products will depend in part on the ability of us and our partners and licensees to achieve market acceptance of our new products and technology. The extent to which, and rate at which, we achieve market acceptance and penetration of our current and future products is a function of many variables including, but not limited to:

- price;

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- safety;
  - efficacy;
  - reliability;
  - conversion costs;
  - marketing and sales efforts; and
  - general economic conditions affecting purchasing patterns.

We may not be able to develop and introduce new products and technologies in a timely manner or new products and technologies may not gain market acceptance. We are in the early stage of product commercialization of certain breathable membrane, Intellicoat seed coating and other Intelimer polymer products and many of our potential products are in development. We believe that our future growth will depend in large part on our ability to develop and market new products in our target markets and in new markets. In particular, we expect that our ability to compete effectively with existing food products, agricultural, industrial and medical companies will depend substantially on successfully developing, commercializing, achieving market acceptance of and reducing the cost of producing our products. In addition, commercial applications of our temperature switch polymer technology are relatively new and evolving. Our failure to develop new products or the failure of our new products to achieve market acceptance would have a material adverse effect on our business, results of operations and financial condition.

## ***We Face Strong Competition in the Marketplace***

Competitors may succeed in developing alternative technologies and products that are more effective, easier to use or less expensive than those which have been or are being developed by us or that would render our technology and products obsolete and non-competitive. We operate in highly competitive and rapidly evolving fields, and new developments are expected to continue at a rapid pace. Competition from large food products, agricultural, industrial and medical companies is expected to be intense. In addition, the nature of our collaborative arrangements may result in our corporate partners and licensees becoming our competitors. Many of these competitors have substantially greater financial and technical resources and production and marketing capabilities than we do, and may have substantially greater experience in conducting clinical and field trials, obtaining regulatory approvals and manufacturing and marketing commercial products.

## ***We Have Limited Manufacturing Experience and Concentration of Capacity in One Location for Apio and May Have to Depend on Third Parties to Manufacture Our Products***

Any disruptions in our primary manufacturing operation would reduce our ability to sell our products and would have a material adverse effect on our financial results. Additionally, we may need to consider seeking collaborative arrangements with other companies to manufacture our products. If we become dependent upon third parties for the manufacture of our products, our profit margins and our ability to develop and deliver those products on a timely basis may be affected. Failures by third parties may impair our ability to deliver products on a timely basis and impair our competitive position. We may not be able to continue to successfully operate our manufacturing operations at acceptable costs, with acceptable yields, and retain adequately trained personnel.

## ***Our Dependence on Single-Source Suppliers and Service Providers May Cause Disruption in Our Operations Should Any Supplier Fail to Deliver Materials***

We may experience difficulty acquiring materials or services for the manufacture of our products or we may not be able to obtain substitute vendors. We may not be able to procure comparable materials or hybrid corn varieties at similar prices and terms within a reasonable time. Several services that are provided to Apio are obtained from a single provider. Several of the raw materials we use to manufacture our products are currently purchased from a single source, including some monomers used to synthesize Intelimer polymers and substrate materials for our breathable membrane products. In addition, virtually all of the hybrid corn varieties sold by Landec Ag are sourced from a single seed producer. Any interruption of our relationship with single-source suppliers or service providers could delay product shipments and materially harm our business.

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## ***We May Be Unable to Adequately Protect Our Intellectual Property Rights***

We have received, and may in the future receive, from third parties, including some of our competitors, notices claiming that we are infringing their patents or other proprietary rights. If we were determined to be infringing any third-party patent, we could be required to pay damages, alter our products or processes, obtain licenses or cease the infringing activities. If we are required to obtain any licenses, we may not be able to do so on commercially favorable terms, if at all. Litigation, which could result in substantial costs to and diversion of our efforts, may also be necessary to enforce any patents issued or licensed to us or to determine the scope and validity of third-party proprietary rights. Any litigation or interference proceeding, regardless of outcome, could be expensive and time consuming and could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties or require us to cease using that technology. Our success depends in large part on our ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. Any pending patent applications we file may not be approved and we may not be able to develop additional proprietary products that are patentable. Any patents issued to us may not provide us with competitive advantages or may be challenged by third parties. Patents held by others may prevent the commercialization of products incorporating our technology. Furthermore, others may independently develop similar products, duplicate our products or design around our patents.

## ***Our Operations Are Subject to Regulations that Directly Impact Our Business***

Our food packaging products are subject to regulation under the FDC Act. Under the FDC Act, any substance that when used as intended may reasonably be expected to become, directly or indirectly, a component or otherwise affect the characteristics of any food may be regulated as a food additive unless the substance is generally recognized as safe. We believe that food packaging materials are generally not considered food additives by the FDA because these products are not expected to become components of food under their expected conditions of use. We consider our breathable membrane product to be a food packaging material not subject to regulation or approval by the FDA. We have not received any communication from the FDA concerning our breathable membrane product. If the FDA were to determine that our breathable membrane products are food additives, we may be required to submit a food additive petition for approval by the FDA. The food additive petition process is lengthy, expensive and uncertain. A determination by the FDA that a food additive petition is necessary would have a material adverse effect on our business, operating results and financial condition.

Federal, state and local regulations impose various environmental controls on the use, storage, discharge or disposal of toxic, volatile or otherwise hazardous chemicals and gases used in some of the manufacturing processes. Our failure to control the use of, or to restrict adequately the discharge of, hazardous substances under present or future regulations could subject us to substantial liability or could cause our manufacturing operations to be suspended and changes in environmental regulations may impose the need for additional capital equipment or other requirements.

Our agricultural operations are subject to a variety of environmental laws including, the Food Quality Protection Act of 1966, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Federal Insecticide, Fungicide and Rodenticide Act, and the Comprehensive Environmental Response, Compensation and Liability Act. Compliance with these laws and related regulations is an ongoing process. Environmental concerns are, however, inherent in most agricultural operations, including those we conduct. Moreover, it is possible that future developments, such as increasingly strict environmental laws and enforcement policies could result in increased compliance costs.

The Company is subject to the Perishable Agricultural Commodities Act ("PACA") law. PACA regulates fair trade standards in the fresh produce industry and governs all the product sold by Apio. Our failure to comply with the PACA requirements could among other things, result in civil penalties, suspension or revocation of a license to sell produce, and in the most egregious cases, criminal prosecution, which could have a material adverse effect on our business.

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### ***Adverse Weather Conditions and Other Acts of God May Cause Substantial Decreases in Our Sales and/or Increases in Our Costs***

Our Food Products and Agricultural Seed Technology businesses are subject to weather conditions that affect commodity prices, crop yields, and decisions by growers regarding crops to be planted. Crop diseases and severe conditions, particularly weather conditions such as floods, droughts, frosts, windstorms and hurricanes, may adversely affect the supply of vegetables and fruits used in our business, which could reduce the sales volumes and/or increase the unit production costs. Because a significant portion of the costs are fixed and contracted in advance of each operating year, volume declines due to production interruptions or other factors could result in increases in unit production costs which could result in substantial losses and weaken our financial condition.

### ***We Depend on Strategic Partners and Licenses for Future Development***

Our strategy for development, clinical and field testing, manufacture, commercialization and marketing for some of our current and future products includes entering into various collaborations with corporate partners, licensees and others. We are dependent on our corporate partners to develop, test, manufacture and/or market some of our products. Although we believe that our partners in these collaborations have an economic motivation to succeed in performing their contractual responsibilities, the amount and timing of resources to be devoted to these activities are not within our control. Our partners may not perform their obligations as expected or we may not derive any additional revenue from the arrangements. Our partners may not pay any additional option or license fees to us or may not develop, market or pay any royalty fees related to products under the agreements. Moreover, some of the collaborative agreements provide that they may be terminated at the discretion of the corporate partner, and some of the collaborative agreements provide for termination under other circumstances. In addition, we may not receive any royalties on future sales of QuickCast™ and PORT™ products because we no longer have control over the sales of those products. Our partners may pursue existing or alternative technologies in preference to our technology. Furthermore, we may not be able to negotiate additional collaborative arrangements in the future on acceptable terms, if at all, and our collaborative arrangements may not be successful.

### ***Both Domestic and Foreign Government Regulations Can Have an Adverse Effect on Our Business Operations***

Our products and operations are subject to governmental regulation in the United States and foreign countries. The manufacture of our products is subject to periodic inspection by regulatory authorities. We may not be able to obtain necessary regulatory approvals on a timely basis or at all. Delays in receipt of or failure to receive approvals or loss of previously received approvals would have a material adverse effect on our business, financial condition and results of operations. Although we have no reason to believe that we will not be able to comply with all applicable regulations regarding the manufacture and sale of our products and polymer materials, regulations are always subject to change and depend heavily on administrative interpretations and the country in which the products are sold. Future changes in regulations or interpretations relating to matters such as safe working conditions, laboratory and manufacturing practices, environmental controls, and disposal of hazardous or potentially hazardous substances may adversely affect our business.

We are subject to USDA rules and regulations concerning the safety of the food products handled and sold by Apio, and the facilities in which they are packed and processed. Failure to comply with the applicable regulatory requirements can, among other things, result in:

- fines, injunctions, civil penalties, and suspensions,
- withdrawal of regulatory approvals,
- product recalls and product seizures, including cessation of manufacturing and sales,
- operating restrictions, and
- criminal prosecution.

We may be required to incur significant costs to comply with the laws and regulations in the future which may have a material adverse effect on our business, operating results and financial condition.

### ***Our International Operations and Sales May Expose Our Business to Additional Risks***

For the first quarter of fiscal year 2003, approximately 20% of our total revenues were derived from product sales to international customers. A number of risks are inherent in international transactions. International sales and operations may be limited or disrupted by any of the following:

- regulatory approval process,
- government controls,
- export license requirements,
- political instability,
- price controls,
- trade restrictions,
- changes in tariffs, or
- difficulties in staffing and managing international operations.

Foreign regulatory agencies have or may establish product standards different from those in the United States, and any inability to obtain foreign regulatory approvals on a timely basis could have a material adverse effect on our international business, and our financial condition and results of operations. While our foreign sales are currently priced in dollars, fluctuations in currency exchange rates, may reduce the demand for our products by increasing the price of our products in the currency of the countries to which the products are sold. Regulatory, geopolitical and other factors may adversely impact our operations in the future or require us to modify our current business practices.

#### ***Cancellations or Delays of Orders by Our Customers May Adversely Affect Our Business***

During the first quarter of fiscal year 2003, sales to our top five customers accounted for approximately 42 % of our revenues, with our top customers, Wal-Mart Stores Inc., accounting for approximately 19 % and Costco Wholesale Corp., accounting for approximately 13 % of our revenues. We expect that, for the foreseeable future, a limited number of customers may continue to account for a substantial portion of our net revenues. We may experience changes in the composition of our customer base, as Apio and Landec Ag have experienced in the past. We do not have long-term purchase agreements with any of our customers. The reduction, delay or cancellation of orders from one or more major customers for any reason or the loss of one or more of our major customers could materially and adversely affect our business, operating results and financial condition. In addition, since some of the products processed by Apio at its Guadalupe, California facility are often sole sourced to its customers, our operating results could be adversely affected if one or more of our major customers were to develop other sources of supply. Our current customers may not continue to place orders, orders by existing customers may be canceled or may not continue at the levels of previous periods or we may not be able to obtain orders from new customers.

#### ***Our Sale of Some Products May Increase Our Exposure to Product Liability Claims***

The testing, manufacturing, marketing, and sale of the products we develop involves an inherent risk of allegations of product liability. If any of our products were determined or alleged to be contaminated or defective or to have caused a harmful accident to an end-customer, we could incur substantial costs in responding to complaints or litigation regarding our products and our product brand image could be materially damaged. Either event may have a material adverse effect on our business, operating results and financial condition. Although we have taken and intend to continue to take what we believe are appropriate precautions to minimize exposure to product liability claims, we may not be able to avoid significant liability. We currently maintain product liability insurance with limits in the amount of \$41.0 million per occurrence and \$42.0 million in the annual aggregate. Our coverage may not be adequate or may not continue to be available at an acceptable cost, if at all. A product liability claim, product recall or other claim with respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on our business, operating results and financial condition.

#### ***Our Stock Price May Fluctuate in Accordance with Market Conditions***

The stock market in general has recently experienced extreme price and volume fluctuations. The following events may cause the market price of our common stock to fluctuate significantly:

- technological innovations applicable to our products,
- our attainment of (or failure to attain) milestones in the commercialization of our technology,
- our development of new products or the development of new products by our competitors,
- new patents or changes in existing patents applicable to our products,
- our acquisition of new businesses or the sale or disposal of a part of our businesses,
- development of new collaborative arrangements by us, our competitors or other parties,
- changes in government regulations applicable to our business,
- changes in investor perception of our business,
- fluctuations in our operating results and
- changes in the general market conditions in our industry.

These broad fluctuations may adversely affect the market price of our common stock.

#### ***We Are Continuing to Implement a New Information System at Apio, and Problems with the Design or Implementation of this New System Could Interfere with Our Operations***

We are in the process of implementing a new management information and accounting system at Apio to replace the old system, which was largely based on legacy systems that were created prior to our acquisition of Apio in 1999. As a part of this effort, we are implementing new enterprise resource planning software and other software applications to manage our business operations. We may not be successful in implementing these new systems and transitioning data. Although we believe that we have identified, to a large extent, the problems associated with the implementation and that the system is stable, problems could arise that we have not foreseen. During 2003, we expect to complete the implementation of the new system. If disruptions occur in the implementation and functionality in 2003, our operations could be interrupted. Such disruptions could adversely impact Apio's ability to do the following in a timely manner: provide quotes, take customer orders, ship products, provide services and support to our customers, bill and track our customers, fulfill contractual obligations and otherwise run Apio's business. In addition, the disruption caused by the implementation of such a system could prevent Apio from accumulating, recording, summarizing, processing and reporting the information to be disclosed by Landec in its periodic reports with the Securities and Exchange Commission in a timely manner. As a result, our financial position, results of operations, cash flows and stock price could be adversely affected.

***Since We Order Cartons for Our Products from Suppliers in Advance of Receipt of Customer Orders for Such Products, We Could Face a Material Inventory Risk***

As part of our inventory planning, we enter into negotiated orders with vendors of cartons used for packing our products in advance of receiving customer orders for such products. Accordingly, we face the risk of ordering too many cartons since orders are generally based on forecasts of customer orders rather than actual orders. If we cannot change or be released from the orders, we may incur costs as a result of inadequately predicting cartons orders in advance of customer orders. Because of this, we may currently have an oversupply of cartons and face the risk of not being able to sell such inventory and our anticipated reserves for losses may be inadequate if we have misjudged the demand for our products. Our business and operating results could be adversely affected as a result of these increased costs.

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***Our Seed Products May Fail to Germinate Properly and We May Be Subject to Claims for Reimbursement or Damages for Losses from Customers Who Use Such Products***

Farmers plant seed products sold by Landec Ag with the expectation that they will germinate under normal growing conditions. If our seed products do not germinate at the appropriate time or fail to germinate at all, our customers may incur significant crop losses and seek reimbursement or bring claims against us for such damages. Although insurance is generally available to cover such claims, the costs for premiums of such policies are prohibitively expensive and we currently do not maintain such insurance. Any claims brought for failure of our seed products to properly germinate could materially and adversely effect our operating and financial results.

***Recently Enacted and Proposed Changes in Securities Laws and Regulations Are Likely to Increase Our Costs***

The Sarbanes-Oxley Act of 2002 (the "Act") that became law in July 2002 requires changes in some of our corporate governance, public disclosure and compliance practices. The Act also requires the SEC to promulgate new rules on a variety of subjects. In addition to final rules and rules already made, Nasdaq has proposed revisions to its requirements for companies, such as Landec, that are listed on the NASDAQ. We expect these developments to increase our legal and financial compliance costs. We expect these changes to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These developments could make it more difficult for us to attract and retain qualified members for our board of directors, particularly to serve on our audit committee. We are presently evaluating and monitoring regulatory developments and cannot estimate the timing or magnitude of additional costs we may incur as a result of the Act.

***Our Controlling Shareholders Exert Significant Influence over Corporate Events that May Conflict with the Interests of Other Shareholders***

Our executive officers and directors and their affiliates own or control approximately 30% of our common stock (assuming conversion of outstanding preferred stock and including options exercisable within 60 days). Accordingly, these officers, directors and shareholders may have the ability to exert significant influence over the election of our Board of Directors, the approval of amendments to our articles and bylaws and the approval of mergers or other business combination transactions requiring shareholder approval. This concentration of ownership may have the effect of delaying or preventing a merger or other business combination transaction, even if the transaction or amendments would be beneficial to our other shareholders. In addition, our controlling shareholders may approve amendments to our articles or bylaws to implement anti-takeover or management friendly provisions that may not be beneficial to our other shareholders.

***Terrorist Attacks and Risk of Contamination May Negatively Impact All Aspects of Our Operations, Revenues, Costs and Stock Price.***

The September 2001 terrorist attacks in the United States, as well as future events occurring in response or connection to them, including, future terrorist attacks against United States targets, rumors or threats of war, actual conflicts involving the United States or its allies, or trade disruptions impacting our domestic suppliers or our customers, may impact our operations and may, among other things, cause decreased sales of our products. More generally, these events have affected, and are expected to continue to affect, the general economy and customer demand for our products. While we do not believe that our employees, facilities, or products are a target for terrorists, there is a remote risk that terrorist activities could result in contamination or adulteration of our products. Although we have systems and procedures in place that are designed to prevent contamination and adulteration of our products, a disgruntled employee or third party could introduce an infectious substance into packages of our products, either at our manufacturing plants or during shipment of our products. Were our products to be tampered with, we could experience a material adverse effect in our business, operations and financial condition.

***Our Operating Results and Financial Condition Could Be Harmed if the Current Economic Downturn Continues***

Any further decline in general economic conditions could result in a reduction in demand for our products. Such decline could harm our financial position, results of operations, cash flows and stock price, and could limit our

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ability to reach our goals for achieving profitability. Also, in such an environment, pricing pressures could continue, and if we are unable to respond quickly enough this could negatively impact our gross margins.

***We May Be Exposed to Employment Related Claims and Costs that Could Materially Adversely Affect Our Business***

We have been subject in the past, and may be in the future, to claims by employees based on allegations of discrimination, negligence, harassment and inadvertent employment of illegal aliens or unlicensed personnel, and we may be subject to payment of workers' compensation claims and other similar claims. We could incur substantial costs and our management could spend a significant amount of time responding to such complaints or litigation regarding employee claims, which may have a material adverse effect on our business, operating results and financial condition.

***We Are Dependent on Our Key Employees and if One or More of Them Were to Leave, We Could Experience Difficulties in Replacing Them and Our Operating Results Could Suffer***



The success of our business depends to a significant extent upon the continued service and performance of a relatively small number of key senior management, technical, sales, and marketing personnel. The loss of any of our key personnel would likely harm our business. In addition, competition for senior level personnel with knowledge and experience in our different line of business is intense. If any of our key personnel were to leave, we would need to devote substantial resources and management attention to replace them. As a result, management attention may be diverted from managing our business, and we may need to pay higher compensation to replace these employees.

### **We May Issue Preferred Stock with Preferential Rights that Could Affect Your Rights**

Our Board of Directors has the authority, without further approval of our shareholders, to fix the rights and preferences, and to issue shares, of preferred stock. In November, 1999 we issued and sold shares of Series A Convertible Preferred Stock and in October 2001 we issued and sold shares of Series B Convertible Preferred Stock. The Series A Convertible Preferred Stock was converted into 1,666,670 shares of Common Stock on November 19, 2002. Each share of Series B Convertible Preferred Stock is convertible into shares of common stock in accordance with the conversion formula provided in our articles of incorporation (currently a 10:1 ratio) and is entitled to the number of votes equal to the number of shares of Common Stock into which such shares could be converted.

Holders of Series B Convertible Preferred Stock have the following preferential rights over holders of common stock:

- **Dividend Preference:** Holders of Series B Convertible Preferred Stock are entitled to cumulative dividends payable in additional shares of Series B Convertible Preferred Stock at an annual rate of eight percent (8%) for the first two years, ten percent (10%) for the third year and twelve percent (12%) thereafter, following the initial sale on October 25, 2001 of shares of Series B Convertible Preferred Stock.
- **Liquidation Preference:** Upon liquidation of the Company, holders of Series B Convertible Preferred Stock are entitled to receive, in preference to the holders of common stock, an amount equal to the original issue price of their shares plus any declared or accrued but unpaid dividends.

The issuance of additional shares of preferred stock could have the effect of making it more difficult for a third party to acquire a majority of our outstanding stock, and the holders of such preferred stock could have voting, dividend, liquidation and other rights superior to those of holders of our Common Stock.

### **We Have Never Paid any Dividends on Our Common Stock**

We have not paid any cash dividends on our Common Stock since inception and do not expect to do so in the foreseeable future. Any dividends will be subject to the preferential dividends payable on our outstanding Series B Preferred Stock and dividends payable on any other preferred stock we may issue.

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### **The Reporting of Our Profitability Could Be Materially And Adversely Affected if it Is Determined that the Book Value of Goodwill is Higher than Fair Value**

Our balance sheet includes an amount designated as "goodwill" that represents a portion of our assets and our stockholders' equity. Goodwill arises when an acquirer pays more for a business than the fair value of the tangible and separately measurable intangible net assets. Under a newly issued accounting pronouncement, Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets", beginning in fiscal year 2002, the amortization of goodwill has been replaced with an "impairment test" which requires that we compare the fair value of goodwill to its book value at least annually and more frequently if circumstances indicate a possible impairment. If we determine at any time in the future that the book value of goodwill is higher than fair value then the difference must be written-off, which could materially and adversely affect our profitability.

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### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

There has been no material change in the Company's reported market risks since the end of fiscal year 2002.

### **Item 4. Controls and Procedures**

- (a) Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q (the "Evaluation Date"), Landec's principal executive officer and principal financial officer concluded that, as of the Evaluation Date, Landec's disclosure controls and procedures as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") were effective such that the material information required to be disclosed by Landec in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.
- (b) Since the Evaluation Date, there have not been any significant changes in Landec's internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

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## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

None.

**Item 2. Changes in Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information****(a) Audit Committee Approval of Non-Audit Services**

In accordance with Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002 (the "Act"), we are required to disclose the non-audit services approved by our Audit Committee to be performed by Ernst & Young LLP, our independent accountants. Non-audit services are defined in the Act as services other than those provided in connection with an audit or a review of the financial statements of a company. On February 20, 2003, the Audit Committee approved the engagement of Ernst & Young LLP for the following non-audit services: (1) tax matter consultations and compliance and (2) the preparation of federal and state income tax returns for fiscal year 2002.

**(b) Change in Fiscal Year**

As a result of the change in the Company's fiscal year from a fiscal year including 52 or 53 weeks that ends on the last Sunday in October to a fiscal year including 52 or 53 weeks that ends on the last Sunday in May, the Company expects to hold its next annual meeting of shareholders in October 2003, rather than April 2004.

Proposals of shareholders of the Company that are intended to be presented by such shareholders at the October 2003 annual meeting of shareholders must be received by the Chief Financial Officer of the Company no later than May 25, 2003, in order that they may be considered for inclusion in the proxy statement and form of proxy relating to that meeting. Also, if a shareholder does not notify the Chief Financial Officer of the Company on or before August 11, 2003 of a proposal for the October 2003 annual meeting of shareholders, management intends to use its discretionary voting authority to vote on such proposal, even if the matter is not discussed in the proxy statement for the October 2003 annual meeting of shareholders.

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**Item 6. Exhibits and Reports on Form 8-K****(a) Exhibits.**

Exhibit Number	Exhibit Title
10.39(1)	Amendment No. 9 to Loan Agreement between Apio, Inc. and the Bank of America dated as of October 31, 2002.
10.40(1)	Amendment No. 2 to the Purchase Agreement between the Registrant and Apio, Inc. dated December 17, 2002.
10.41+	Amendment No. 10 to Loan Agreement between Apio, Inc. and the Bank of America dated as of January 15, 2003.
10.42+	Amendment No. 11 to Loan Agreement between Apio, Inc. and the Bank of America dated as of January 30, 2003.
10.43+	Amendment No. 12 to Loan Agreement between Apio, Inc. and the Bank of America dated as of February 28, 2003.
99.1+	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
99.2+	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

+ Filed herewith.

(1) Incorporated by reference to identically numbered exhibits filed with the Registrant's Form 10-K filed for the fiscal year ended October 27, 2002.

**(b) Reports on Form 8-K**

A report on Form 8-K was filed on November 7, 2002 reporting the sale of all of the stock of Dock Resins Corporation to The Lubrizol Corporation on October 24, 2002.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

LANDEC CORPORATION

By: /s/ Gregory S. Skinner  
Gregory S. Skinner  
Vice President of Finance and Administration and Chief Financial Officer  
(Principal Financial and Accounting Officer)

Date: March 11, 2003

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CERTIFICATIONS

I, Gary T. Steele, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Landec Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 11, 2003

/s/ Gary T. Steele  
Gary T. Steele  
President and Chief Executive Officer

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I, Gregory S. Skinner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Landec Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 11, 2003

/s/ Gregory S. Skinner

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Gregory S. Skinner  
Vice President of Finance and Administration  
and Chief Financial Officer

<b>Exhibit Number</b>	<b>Exhibit</b>
10.41	Amendment No. 10 to Loan Agreement between Apio, Inc. and the Bank of America dated as of January 15, 2003.
10.42	Amendment No. 11 to Loan Agreement between Apio, Inc. and the Bank of America dated as of January 30, 2003.
10.43	Amendment No. 12 to Loan Agreement between Apio, Inc. and the Bank of America dated as of February 28, 2003.
99.1	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
99.2	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

AMENDMENT NO.10 TO  
LOAN AGREEMENT

This Amendment No. 10 to Loan Agreement (this "Amendment"), dated as of January 15, 2003, is entered into with reference to the Loan Agreement (as amended, supplemented or otherwise modified from time to time, the "Loan Agreement") dated as of November 29, 1999 currently among Apio, Inc., a Delaware corporation (successor by merger and name change to Bush Acquisition Corporation, a Delaware corporation) ("Borrower"), each lender from time to time a party thereto (each a "Lender" and collectively, the "Lenders"), Bank of America, N.A., as Issuing Lender, and Bank of America, N.A., as Administrative Agent (in such capacity, the "Administrative Agent"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Loan Agreement. Section references herein relate to the Loan Agreement unless otherwise stated.

The parties hereto hereby agree as follows:

1. Section 6.19 - Maximum Research and Development Expenditures. Section 6.19 is hereby amended in full to read as follows:

"6.19 Maximum Research and Development Expenditures. Permit research and development expenditures to exceed (a) during the Fiscal Year ended on the Sunday nearest to October 31, 2002, \$1,886,000, and (b) during any other Fiscal Year, \$1,500,000."

2. Effectiveness. This Amendment shall become effective on such date (the "Effective Date") as the Administrative Agent shall have received, in form and substance satisfactory to the Administrative Agent and the Lenders, (a) duly executed counterparts of this Amendment and (b) a duly executed counterparts of Annex I attached hereto, signed by each Party thereto.

3. Representations and Warranties. Except (i) for representations and warranties which expressly relate to a particular date or which are no longer true and correct as a result of a change permitted by the Loan Agreement or the other Loan Documents or (ii) as disclosed by Borrower and approved in writing by the Requisite Lenders, the Borrower hereby represents and warrants that each representation and warranty made by Borrower in Article 4 of the Loan Agreement (other than Sections 4.6 (first sentence), 4.11, and 4.18) are true and correct as of the date hereof as though such representations and warranties were made on and as of the date hereof. Without in any way limiting the foregoing, Borrower represents and warrants to the Administrative Agent and the Lenders that no Default or Event of Default has occurred and remains continuing or will result from the consents, waivers, amendments or transactions set forth herein or contemplated hereby.

4. Fees and Expenses. Borrower hereby agrees to reimburse the Administrative Agent and the Lenders for the Administrative Agents and Lenders' reasonable costs and expenses (including reasonable attorney's fees and expenses) incurred in connection with the negotiation and drafting of this Amendment and the transaction contemplated hereby

together with any and all other fees and expenses currently due and owing to the Administrative Agent and/or the Lenders. Borrower further agrees that, commencing on the date hereof, it shall satisfy its obligations under Section 11.3 of the Loan Agreement not later than five (5) days after receipt of an invoice with respect thereto from the Administrative Agent. Each of the parties hereto hereby agrees that the failure to satisfy the requirements of this Section 8 shall constitute an Event of Default under the Loan Agreement.

5. Confirmation. In all respects, the terms of the Loan Agreement and the other Loan Documents, in each case as amended hereby or by the documents referenced herein, are hereby confirmed.

[THIS SPACE INTENTIONALLY LEFT BLANK -  
SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, Borrower, the Administrative Agent and the Lenders have executed this Agreement as of the date first set forth above by their duly authorized representatives.

APIO, INC., a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BANK OF AMERICA, N.A., as Administrative Agent, Issuing Lender and sole Lender

By: \_\_\_\_\_  
Carol Clements, Senior Vice President

CONSENT AND REAFFIRMATION OF GUARANTOR AND PLEDGOR

Each of the undersigned guarantors and pledgors hereby consents to the execution, delivery and performance by Borrower and the Administrative Agent of the foregoing Amendment No. 10 to Loan Agreement ("Amendment No. 10"). In connection therewith, each of the undersigned expressly and knowingly reaffirms its liability under each of the Loan Documents to which it is a Party and expressly agrees (a) to be and remain liable under the terms of each such Loan Document, and (b) that it has no defense, offset or counterclaim whatsoever against the Administrative Agent or the Lenders with respect to any such Loan Document.

Each of the undersigned further agrees that each Loan Document to which it is a Party shall remain in full force and effect and is hereby ratified and confirmed.

Each of the undersigned further agrees that the execution of this Consent and Reaffirmation of Guarantor and Pledgor is not necessary for the continued validity and enforceability of any Loan Document to which it is a Party, but is executed to induce the Administrative Agent and the Lenders to approve of and otherwise enter into the Amendment No. 10.

IN WITNESS WHEREOF, each of the undersigned, intending to be legally bound hereby, has caused this Consent and Reaffirmation of Guarantor and Pledgor to be executed as of January 15, 2003.

LANDEC CORPORATION, a California corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CAL EX TRADING COMPANY,  
a California corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

AMENDMENT NO.11 TO  
LOAN AGREEMENT

This Amendment No. 11 to Loan Agreement (this "Amendment"), dated as of January 31, 2003, is entered into with reference to the Loan Agreement (as amended, supplemented or otherwise modified from time to time, the "Loan Agreement") dated as of November 29, 1999 currently among Apio, Inc., a Delaware corporation (successor by merger and name change to Bush Acquisition Corporation, a Delaware corporation) ("Borrower"), each lender from time to time a party thereto (each a "Lender" and collectively, the "Lenders"), Bank of America, N.A., as Issuing Lender, and Bank of America, N.A., as Administrative Agent (in such capacity, the "Administrative Agent"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Loan Agreement. Section references herein relate to the Loan Agreement unless otherwise stated.

The parties hereto hereby agree as follows:

1. Section 1.1 - Definition of "Revolver Termination Date". The definition of "Revolver Termination Date" contained in Section 1.1 is hereby amended in full to read as follows:

2.6. "Revolver Termination Date" means February 28, 2003, or such later anniversary of such date as may be established pursuant to Section 2.6.

2. Effectiveness. This Amendment shall become effective on such date (the "Effective Date") as the Administrative Agent shall have received, in form and substance satisfactory to the Administrative Agent and the Lenders, (a) duly executed counterparts of this Amendment and (b) a duly executed counterparts of Annex I attached hereto, signed by each Party thereto.

3. Representations and Warranties. Except (i) for representations and warranties which expressly relate to a particular date or which are no longer true and correct as a result of a change permitted by the Loan Agreement or the other Loan Documents or (ii) as disclosed by Borrower and approved in writing by the Requisite Lenders, the Borrower hereby represents and warrants that each representation and warranty made by Borrower in Article 4 of the Loan Agreement (other than Sections 4.6 (first sentence), 4.11, and 4.18) are true and correct as of the date hereof as though such representations and warranties were made on and as of the date hereof. Without in any way limiting the foregoing, Borrower represents and warrants to the Administrative Agent and the Lenders that no Default or Event of Default has occurred and remains continuing or will result from the consents, waivers, amendments or transactions set forth herein or contemplated hereby.

4. Fees and Expenses. Borrower hereby agrees to reimburse the Administrative Agent and the Lenders for the Administrative Agents and Lenders' reasonable costs and expenses (including reasonable attorney's fees and expenses) incurred in connection with the negotiation and drafting of this Amendment and the transaction contemplated hereby together with any and all other fees and expenses currently due and owing to the Administrative

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Agent and/or the Lenders. Borrower further agrees that, commencing on the date hereof, it shall satisfy its obligations under Section 11.3 of the Loan Agreement not later than five (5) days after receipt of an invoice with respect thereto from the Administrative Agent. Each of the parties hereto hereby agrees that the failure to satisfy the requirements of this Section 4 shall constitute an Event of Default under the Loan Agreement.

5. Confirmation. In all respects, the terms of the Loan Agreement and the other Loan Documents, in each case as amended hereby or by the documents referenced herein, are hereby confirmed.

**[THIS SPACE INTENTIONALLY LEFT BLANK -  
SIGNATURE PAGE TO FOLLOW]**

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IN WITNESS WHEREOF, Borrower, the Administrative Agent and the Lenders have executed this Agreement as of the date first set forth above by their duly authorized representatives.

APIO, INC., a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BANK OF AMERICA, N.A., as Administrative  
Agent, Issuing Lender and sole Lender

By: \_\_\_\_\_  
Carol Clements, Senior Vice President

ANNEX I TO AMENDMENT NO. 11

CONSENT AND REAFFIRMATION OF GUARANTOR AND PLEDGOR

Each of the undersigned guarantors and pledgors hereby consents to the execution, delivery and performance by Borrower and the Administrative Agent of the foregoing Amendment No. 11 to Loan Agreement ("Amendment No. 11"). In connection therewith, each of the undersigned expressly and knowingly reaffirms its liability under each of the Loan Documents to which it is a Party and expressly agrees (a) to be and remain liable under the terms of each such Loan Document, and (b) that it has no defense, offset or counterclaim whatsoever against the Administrative Agent or the Lenders with respect to any such Loan Document.

Each of the undersigned further agrees that each Loan Document to which it is a Party shall remain in full force and effect and is hereby ratified and confirmed.

Each of the undersigned further agrees that the execution of this Consent and Reaffirmation of Guarantor and Pledgor is not necessary for the continued validity and enforceability of any Loan Document to which it is a Party, but is executed to induce the Administrative Agent and the Lenders to approve of and otherwise enter into the Amendment No. 11.

IN WITNESS WHEREOF, each of the undersigned, intending to be legally bound hereby, has caused this Consent and Reaffirmation of Guarantor and Pledgor to be executed as of January 31, 2003.

LANDEC CORPORATION, a California  
corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CAL EX TRADING COMPANY,  
a California corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



AMENDMENT NO. 12 TO  
LOAN AGREEMENT

This Amendment No. 12 to Loan Agreement (this “Amendment”), dated as of February 28, 2003, is entered into with reference to the Loan Agreement (as amended, supplemented or otherwise modified from time to time, the “Loan Agreement”) dated as of November 29, 1999 currently among Apio, Inc., a Delaware corporation (successor by merger and name change to Bush Acquisition Corporation, a Delaware corporation) (“Borrower”), each lender from time to time a party thereto (each a “Lender” and collectively, the “Lenders”), Bank of America, N.A., as Issuing Lender, and Bank of America, N.A., as Administrative Agent (in such capacity, the “Administrative Agent”). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Loan Agreement. Section references herein relate to the Loan Agreement unless otherwise stated.

The parties hereto hereby agree as follows:

1. Section 1.1 – Additional Defined Terms. The following defined terms are hereby added to Section 1.1 of the Loan Agreement:

“Overadvance” means the amount, if any, by which the outstanding principal amount of Revolving Usage plus reserves, if any, exceeds the Borrowing Base.

“Overadvance Margin” means the interest rate margin set forth below opposite the applicable Pricing Level:

<u>Pricing Level</u>	<u>Overadvance Margin</u>
I	3.50%
II	4.25%
III	4.75%

“Pricing Fixed Charges” means, for any period, determined on a consolidated basis for Borrower and its Subsidiaries, (i) gross interest expense (paid or payable in Cash, but excluding (A) accrued and unpaid interest on Indebtedness due and owing to Landec and (B) interest paid in cash during Borrower’s 2002 Fiscal Year with respect to the Term Loan), plus (ii) scheduled principal payments on Indebtedness for borrowed money and Capital Leases (including exposure for Standby Letters of Credit but excluding (A) any accrued but unpaid Earn-Outs and (B) any scheduled principal payments with respect to the Term Loan).

“Pricing Ratio” means , as of the last day of each Fiscal Quarter, for the four Fiscal Quarter period then ending, the ratio of:

(a) the sum of (i) EBITDA for such period, minus (ii) Capital Expenditures (net of any Indebtedness constituting purchase money incurred to finance those Capital Expenditures) for such period, minus (iii) income taxes payable in cash for such period, minus (iv) Tax Gross-Up’s for such period, minus (v) Management Fee Distributions to the extent paid in cash during such period; to

(b) Pricing Fixed Charges for such period.

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2. Section 1.1 – Amended Definitions. The following defined terms contained in Section 1.1 of the Loan Agreement are hereby amended and restated in full to read as follows:

“Base Margin” means (a) for the Initial Pricing Period, one and three-quarters percent (1.75%), and (b) for each subsequent Pricing Period, the interest rate margin set forth below opposite the Pricing Level for that Pricing Period:

<u>Pricing Level</u>	<u>Base Rate Margin</u>
I	1.25%
II	1.50%
III	1.75%

“Borrowing Base” means, as of each date of determination, an amount determined by the Administrative Agent with reference to the most recent Borrowing Base Certificate to be equal to the sum of:

- (a) eighty-five percent (85%) of the aggregate book value of the Eligible Receivables; plus
- (b) twenty five percent (25%) of Eligible Inventory; minus
- (c) one hundred percent (100%) of Grower Payables; minus
- (d) the Letter of Credit Usage with respect to all non cash collateralized Standby Letters of Credit issued for the account of Borrower or any of its Subsidiaries.

“Commitment Fee Rate” means (a) for the Initial Pricing Period, one-quarter of one percent (0.25%), and (b) for each Pricing Period thereafter, the rate per annum set forth below opposite the Pricing Level in effect during that Pricing Period:

<u>Pricing Level</u>	<u>Commitment Fee Rate</u>
I	0.15%
II	0.20%
III	0.25%

“IBM Letter of Credit” means Bank of America Irrevocable Standby Letter of Credit No. 3037380, dated April 26, 2001, in the original stated amount of \$740,000.00, for the account of Borrower and naming IBM Credit Corporation as beneficiary, as amended, supplemented or otherwise modified from time to time, including by (a) that certain Amendment No. 1 to Letter of Credit, dated September 13, 2001, which amendment increased the stated amount of the IBM Letter of Credit to \$816,042, and (b) that certain Amendment No. 2 to Letter of Credit, dated October 1, 2001, which amendment increased the stated amount of the IBM Letter of Credit to \$932,042.

“Initial Pricing Period” means the period from the Effective Date of Amendment No. 12 to the Loan Agreement, dated as of February 28, 2003 to and including April 30, 2003.

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“Pricing Level” means, for each Pricing Period, the level set forth below opposite the Pricing Ratio as of the last day of the Fiscal Quarter ending two months prior to the commencement of that Pricing Period:

<u>Pricing Level</u>	<u>Pricing Ratio</u>
I	Greater than 1.25:1.00
II	Greater than or equal 1.25:1.00, but less than or equal to 1.00:1.00
III	less than 1.00:1.00

The Pricing Level shall change as of the first day of each Pricing Period on the basis of the then most recently delivered Compliance Certificate. In the event that Borrower fails to deliver a Compliance Certificate on a timely basis, the Pricing Level shall increase to the highest level set forth above until such time as Borrower delivers a Compliance Certificate.

2.6. “Revolver Termination Date” means May 1, 2003, or such later anniversary of such date as may be established pursuant to Section

3. Deleted Defined Terms – Section 1.1. The defined term “Eligible Notes Receivable” is hereby deleted in its entirety from the Loan Agreement and each of the other Loan Documents.

4. Section 2.8 – Optional Overadvances. A new Section 2.8 is hereby added to the Loan Agreement to read as follows:

“2.8 Optional Overadvances. Any contrary provision of this Agreement notwithstanding, so long as no Default or Event of Default shall have occurred and be continuing, the Lenders hereby authorize Administrative Agent to, and the Administrative Agent shall, continue to make Advances to Borrower notwithstanding that an Overadvance exists or thereby would be created, so long as (a) after giving effect to such Advances, the Revolving Usage does not exceed the Borrowing Base by more than \$1,000,000, (b) after giving effect to such Advances the outstanding Revolving Usage does not exceed the Revolving Commitment, and (c) at the time of the making of any such Advance, the Administrative Agent does not believe, in its reasonable discretion, that the Overadvance created by such Advance will be outstanding for more than 60 days. The Advances that are made pursuant to this Section 2.8 shall be subject to the same terms and conditions as any other Base Rate Advance except that interest with respect to such advances shall accrue at a per annum rate of interest equal to the Base Rate plus the applicable Overadvance Margin and such interest, to the extent accrued and unpaid, shall be due and payable on the date that the principal portion of any Overadvance shall be due and payable in accordance with Section 3.1(d)(ii).

In the event the Administrative Agent obtains actual knowledge that the Revolving Usage exceeds the amounts permitted by the preceding paragraph, regardless of the amount of, or reason for, such excess, the Administrative Agent shall notify Lenders as soon as practicable (and prior to making any (or any additional) intentional Overadvances unless the Administrative Agent reasonably determines in its sole discretion that prior notice would result in imminent harm to the Collateral or its value), and the Lenders shall, together with Administrative Agent, jointly determine the terms of arrangements that shall be implemented with Borrower and intended to

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reduce, within a reasonable time, the outstanding principal amount of the Advances to Borrower to an amount permitted by the preceding paragraph. In the event the Administrative Agent or any Lender disagrees over the terms of reduction or repayment of any Overadvance, the terms of reduction or repayment thereof shall be implemented according to the determination of the Requisite Lenders. Each Lender shall be obligated to settle with the Administrative Agent for the amount of such Lender’s Pro Rata Share of any Advances made pursuant to this Section 2.8 in the manner required by this Agreement for any other form of Advance.”

5. Section 3.1(d) – Payments of Principal and Interest. Section 3.1(d) of the Loan Agreement is hereby amended in full to read as

follows:

“(d) If not sooner paid, the principal Indebtedness under this Agreement shall be payable as follows:

(i) subject to Section 2.8, the amount, if any, by which the principal Indebtedness evidenced by the Revolving Notes at any time exceeds the Maximum Revolving Credit Amount shall be payable immediately;

(ii) the amount, if any, of any Overadvance that has been outstanding for greater than 60 days;

(iii) the principal amount of each Eurodollar Rate Loan shall be immediately payable in cash on the last day of the related Eurodollar Period; and

(iv) the outstanding principal balance of all Loans shall, in any event, be payable on the Revolver Termination Date.”

6. Section 3.7 – Default Rate. Section 3.7 of the Loan Agreement is hereby amended such that the “Default Rate”, in all circumstances, shall be 6% per annum above the rate of interest that would otherwise be applicable pursuant to this Agreement, to the fullest extent permitted by applicable Laws.

7. IBM Letter of Credit; Cash Collateral. Each of the parties hereto agrees that (i) the IBM Letter of Credit and each of the agreements, documents, certificates and other instruments executed in connection therewith (collectively, the “IBM L/C Documents”) shall, subject to the provisions of clause (iii) below, be considered to be Loan Documents for all purposes, (ii) the obligations of Borrower, including without limitation, the obligation of Borrower to reimburse Bank of America with respect to any amount drawn on the IBM Letter of Credit (collectively, the “IBM Obligations”), shall be considered “Secured Obligations” under the Borrower Security Agreement and the Borrower Security Agreement shall be so amended by this reference, and (iii) the IBM Obligations shall **NOT** be secured by the Deed of Trust. Borrower further agrees that the cash collateral currently in the amount of approximately \$932,000 currently held by Bank of America in Deposit Account No. 1475800006 as security for the IBM Obligations (the “IBM Cash Collateral” shall also secure the Obligations under the Loan Agreement and the IBM L/C Documents shall be so amended by this reference. In the event that the IBM Letter of Credit is terminated prior to the Revolver Termination Date, the Administrative Agent and the Lenders hereby agree to release their Lien on the IBM Cash Collateral and, at the expense of Borrower, to execute such documentation as the Borrower shall reasonably request to effectuate such release.

8. Delivery of Operating Budget; Change in Fiscal Year. Borrower hereby covenants and agrees that, not later than April 1, 2003, it shall deliver to the Administrative Agent, an

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operating budget for Borrower and its Subsidiaries for the Borrower’s Fiscal Year ending approximately May 31, 2004, which operating budget shall include, without limitation, the Borrower’s monthly projected balance sheet, profit and loss statement, cash flow statement and Borrowing Base. Borrower further acknowledges that it has advised the Administrative Agent of its intent to change its Fiscal Year. Not less than 30 days prior to such change in the Borrower’s Fiscal Year, Borrower covenants and agrees to provide such information and financial statements to the Administrative Agent as the Administrative Agent shall reasonably request in connection therewith.

9. Payments to Landec, Nicholas Tompkins and Kathleen Tompkins. Notwithstanding any provision of the Loan Agreement, the Subordination Agreements or any other Loan Documents, unless otherwise agreed to by the Lenders, Borrower shall not make any payments to Landec, Nicholas Tompkins or Kathleen Tompkins, whether in respect of Distributions, Subordinated Obligations, management fees, tax agreement amounts or any other form of Indebtedness, whether in respect of principal, interest or otherwise; provided, however, that Borrower shall be permitted to reimburse Landec for any and all out-of-pocket expenses or intercompany charges incurred by Landec for the benefit of Borrower in the ordinary course of business, which expenses and/or charges shall include, without limitation, the purchase of insurance, legal and payroll services, patent related costs and the like.

10. Amendment to Deed of Trust; Title Endorsement. Borrower hereby covenants and agrees that, not later than March 14, 2003, it shall deliver to the Administrative Agent, (a) a duly executed First Amendment to Deed of Trust (“Trust Deed Amendment”), providing for the modification of the Borrower Deed of Trust in accordance with the terms herein, which Borrower Deed of Trust was recorded on December 2, 1999 as Instrument No. 1999-0094502 in the real property records of the County Recorder of Santa Barbara County, California (“Official Records”), and (b) a duly executed Reaffirmation of Landlord Consent and Agreement by Apio Cooling (“AP”), affirming the continuing effectiveness of the terms and provisions of the Landlord Consent and Agreement recorded December 2, 1999 as Instrument No. 1999-0094501 in the Official Records, both in such forms as may be required by the Administrative Agent, in its reasonable discretion. In addition, Borrower hereby covenants and agrees that, not later than March 21, 2003, it shall deliver to the Administrative Agent, a duly executed Reaffirmation of Subordination Agreement by Central Coast Federal Land Bank Association, FLCA (“CCFLBA”) and AP, affirming the continuing effectiveness of the terms and provisions of the Subordination Agreement recorded December 6, 1999 as Instrument No. 1999-0094903 in the Official Records, in such form as may be required by the Administrative Agent, in its reasonable discretion. Lastly, Borrower hereby covenants and agrees that, not later than March 21, 2003, it shall obtain from Chicago Title Company assurances that it is committed to cause the Trust Amendment to be recorded, and upon the recording thereof, to issue a CLTA Form 110.5 endorsement to provide title insurance for the effectiveness of the Trust Deed Amendment and the continuing priority of the lien of the Borrower Deed of Trust, as amended, in such form, subject to such exceptions and with such additional title insurance policy endorsements as Administrative Agent may reasonably require.

11. Joint Venture Agreements; Growing Plan and Crop Strategy. Borrower hereby covenants and agrees that not later than April 1, 2003 it shall deliver to the Administrative Agent (a) a Certificate of a Responsible Official of Borrower certifying that (i) attached thereto as Exhibit A is a full, correct and complete listing of each joint venture or similar arrangement to which Borrower or any of its Subsidiaries is a party and (ii) with respect to each item listed on Exhibit A, attached thereto as Exhibit B are true, complete and correct, duly executed copies of the joint venture agreement (or similar documentation) related thereto and (b) a summary of the Borrower’s growing plan and crop strategy for 2003, including, without limitation, (i) a listing of all of Borrower’s growers, (iii) the percentage of total supply, by division, that each such grower represents and (iii) a description of the financial/economic arrangements between Borrower and such grower. The summary required by this Section 11(b) shall be

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substantially in the form of Annex II attached hereto, or such other form as shall be reasonably satisfactory to the Administrative Agent.

12. Release. As a material inducement to the Lenders to enter into this Consent, the Borrower hereby fully releases and discharges forever the Administrative Agent and each of the Lenders, their respective subsidiaries and affiliated companies, and their respective agents, employees, officers, directors, representatives, attorneys, successors and assigns (hereafter referred to collectively as the “Released Parties”), and each and all of them, from any and all liabilities, claims, actions, causes of action, charges, complaints, obligations, costs, losses, damages, injuries, attorneys’ fees, and other legal responsibilities, of any form whatsoever, whether known or unknown, unforeseen, unanticipated, unsuspected or latent, which either of them may have or hold, or have at any time heretofore have or held, arising out of or relating to the Loan Agreement, the Loan Documents, the transactions contemplated

thereby or the relationship of the parties hereto arising out of the Loan Agreement or the Loan Documents prior to the effective date of this Consent. The Borrower hereby expressly waives all rights under Section 1542 of the California Civil Code, which reads as follows:

“Section 1542. [Certain claims not affected by general release.] A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known to him must have materially affected his settlement with the debtor.”

Borrower hereby agrees to indemnify and hold harmless each of the Released Parties for and against any and all costs, losses or liability, whatsoever, including reasonable attorneys’ fees arising out of the prosecution by Borrower, or its successors or assigns, of any action, claim or cause of actions released pursuant to this Section.

13. Effectiveness. This Amendment shall become effective on such date (the “Effective Date”) as the Administrative Agent shall have received, in form and substance satisfactory to the Administrative Agent and the Lenders, (a) duly executed counterparts of this Amendment and (b) a duly executed counterparts of Annex I attached hereto, signed by each Party thereto.

14. Representations and Warranties. Except (i) for representations and warranties which expressly relate to a particular date or which are no longer true and correct as a result of a change permitted by the Loan Agreement or the other Loan Documents or (ii) as disclosed by Borrower and approved in writing by the Requisite Lenders, the Borrower hereby represents and warrants that each representation and warranty made by Borrower in Article 4 of the Loan Agreement (other than Sections 4.6 (first sentence), 4.11, and 4.18) are true and correct as of the date hereof as though such representations and warranties were made on and as of the date hereof. Without in any way limiting the foregoing, Borrower represents and warrants to the Administrative Agent and the Lenders that no Default or Event of Default has occurred and remains continuing or will result from the consents, waivers, amendments or transactions set forth herein or contemplated hereby.

15. Fees and Expenses. Borrower hereby agrees to reimburse the Administrative Agent and the Lenders for the Administrative Agents and Lenders’ reasonable costs and expenses (including reasonable attorney’s fees and expenses) incurred in connection with the negotiation and drafting of this Amendment and the transaction contemplated hereby together with any and all other fees and expenses currently due and owing to the Administrative Agent and/or the Lenders. Borrower further agrees that, it shall satisfy its obligations under Section 11.3 of the Loan Agreement not later than five (5) days after receipt of an invoice with respect thereto from the Administrative Agent. Each of the parties

hereto hereby agrees that the failure to satisfy the requirements of this Section 15 shall constitute an Event of Default under the Loan Agreement.

16. Amendment Fee. On the Effective Date, or as soon thereafter as may be agreed upon by the Lenders, the Borrower shall pay to the Administrative Agent, for the ratable account of the Lenders, an amendment fee of \$30,000.

17. Confirmation. In all respects, the terms of the Loan Agreement and the other Loan Documents, in each case as amended hereby or by the documents referenced herein, are hereby confirmed.

**[THIS SPACE INTENTIONALLY LEFT  
BLANK SIGNATURE PAGES TO FOLLOW]**

IN WITNESS WHEREOF, Borrower, the Administrative Agent and the Lenders have executed this Agreement as of the date first set forth above by their duly authorized representatives.

APIO, INC., a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BANK OF AMERICA, N.A., as Administrative Agent, Issuing Lender and sole Lender

By: \_\_\_\_\_  
Carol Clements, Senior Vice President

ANNEX I TO AMENDMENT NO. 12

CONSENT AND REAFFIRMATION OF GUARANTOR AND PLEDGOR

Each of the undersigned guarantors and pledgors hereby consents to the execution, delivery and performance by Borrower and the Administrative Agent of the foregoing Amendment No. 12 to Loan Agreement (“Amendment No. 12”). In connection therewith, each of the undersigned expressly and knowingly reaffirms its liability under each of the Loan Documents to which it is a Party and expressly agrees (a) to be and remain liable under

the terms of each such Loan Document, and (b) that it has no defense, offset or counterclaim whatsoever against the Administrative Agent or the Lenders with respect to any such Loan Document.

Each of the undersigned further agrees that each Loan Document to which it is a Party shall remain in full force and effect and is hereby ratified and confirmed.

Each of the undersigned further agrees that the execution of this Consent and Reaffirmation of Guarantor and Pledgor is not necessary for the continued validity and enforceability of any Loan Document to which it is a Party, but is executed to induce the Administrative Agent and the Lenders to approve of and otherwise enter into the Amendment No. 12.

IN WITNESS WHEREOF, each of the undersigned, intending to be legally bound hereby, has caused this Consent and Reaffirmation of Guarantor and Pledgor to be executed as of February 28, 2003.

LANDEC CORPORATION, a California corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CAL EX TRADING COMPANY, California corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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ANNEX II

**CROP STRATEGY 2003**

Value Added

<u>Grower</u>	<u>% Supply</u>	<u>Joint Venture Yes/No</u>	<u>Financial/Economic Arrangements</u>	
			• Projected advance/investment (\$\$)	• Repayment terms
			• Uses	• Collateral

Export

<u>Grower</u>	<u>% Supply</u>	<u>Joint Venture Yes/No</u>	<u>Financial/Economic Arrangements</u>	
			• Projected advance/investment (\$\$)	• Repayment terms
			• Uses	• Collateral

Etc

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Landec Corporation (the "Company") on Form 10-Q for the period ending January 26, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary T. Steele, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 11, 2003

/s/ Gary T. Steele  
Gary T. Steele  
*Chief Executive Officer and President*  
*(Principal Executive Officer)*

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Landec Corporation (the "Company") on Form 10-Q for the period ending January 26, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory S. Skinner, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 11, 2003

/s/ Gregory S. Skinner  
Gregory S. Skinner  
*Vice President and Chief Financial Officer*  
*(Principal Accounting Officer)*

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